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Germany

Sugar

German Position on EU Reform Proposal for Sugar Market Regime

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Report Highlights:
The German government supports the EU reform proposal for the EU sugar market regime but warns that the proposed quota reductions may not be sufficient to meet the reductions requirements resulting from the ongoing WTO negotiation and the WTO panel decision on EU sugar exports.

German farmers and the sugar industry realistically see a need for a reform of the sugar regime. However, they view the proposed adjustment is too extreme. In particular, the opening of the EU market for duty-free imports of sugar from LDCs is seen as a great risk to the functioning of the EU sugar market.

Includes PSD Changes: No
Includes Trade Matrix: No
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Executive Summary

The German government generally supports the EU reform proposal for the EU sugar market regime[1] but warns that the proposed quota reduction may not be sufficient to meet the reduction requirements resulting from the ongoing WTO negotiations and the WTO panel decision on EU sugar exports. The proposed income compensation of 60 percent for price and production quota reductions is regarded to be too high.

German farmers and the sugar industry realistically see a need for a reform of the sugar regime. However, they view the proposed adjustment is too extreme. In particular, the opening of the market for duty-free imports of sugar from LDCs is seen as a great risk to the future functioning of the EU sugar market.

Position of the German Federal Government

The German government welcomes the Commission proposal for a reform of the sugar regime. A reform is necessary:

- To transfer the results of the Luxembourg Reform of the EU Common Agricultural Policy of June 2003 to the sugar sector
- To support the economic development policy targets of the federal government
- To comply with the international commitments of the EU
- To maintain a sustainable and competitive sugar industry in Europe

Prices

The federal government supports:

- The abolishment of the intervention system for sugar
- The implementation of a reference price system for sugar and a minimum price system for sugar beets
- A reduction of the minimum prices for preferential sugar imports
- A reduction of the institutional (intervention) prices

  However the level of price reduction depends on the availability of EU funds for compensation payments and on international commitments (WTO/ACP/EBA).

Quotas

The federal government welcomes:

- The consolidation of A and B quotas
- The proposed tradeability of quotas EU-wide
- The abolishment of the annual reductions in quota volumes during recent years
- The reduction of maximum production quotas. However, a reduction of 2.8 MMT to 14.6 MMT will most likely not be sufficient. As result of the expected WTO panel decision on EU sugar exports and the expected counting of re-exported sugar imports from African, Caribbean, Pacific (ACP) countries and India as normal exports, a higher reduction of sugar production quotas may become necessary.

The proposed increase in isoglucose [high fructose corn (grain) syrup] production quota requires further research. The proposed storage subsidies should also be reconsidered since they will most likely not be effective is leading to a balanced market situation.

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[1] http://europa.eu.int/comm/agriculture/capreform/sugarprop_en.pdf

Compensation Payments to Farmers
The federal government supports the granting of a decoupled, WTO-conform compensation payment to beet farmers. However, the amount of compensation payments should reflect

- The reduction in the intervention price
- And the amount of available funds

The federal government prefers a lower level of compensation payments, less than the EU proposed 60 percent.

Restructuring Subsidies for the EU Sugar Industry
Restructuring subsidies for the industry and their employees need to be checked carefully. More detailed information is necessary.

Import Regime and ACP Action Plan
The federal government welcomes:

- The intention of the Commission to open a dialog with ACP countries
  Least Developed Countries (LDC) should also be included in the dialog. Goal: ACP countries should become less dependent on sugar exports.
- The inclusion of ACPs and LDCs in the reform discussion to consider the interest of these countries, without revising the Everything-But-Arms (EBA) initiative
- The more precise definition of region of origin for sugar from countries with preferential access to the EU market

Begin of Reform and Review
The federal government proposes that the reform should be implemented by July 1, 2006. A follow-up review is intended for 2009 because

- The legislative proposals will not become available before May/June 2005
- The involved industries require sufficient planning time for the investment decisions
- The administration needs sufficient time for reform implementation
- The current sugar market regime expires June 30, 2006.

Budget
The reform should not cost more than the current regime and should remain within the EU budget parameters. This applies to all public expenditure connected to the EU sugar market including the proposed action plan for ACP countries.

Farmer and Industry Reaction

The German sugar industry in cooperation with the German farmer association prepared a common position paper in response to the Commission proposal. Farmers and the sugar industry acknowledge the need for a reform of the EU sugar regime. The EU proposal, however, goes way beyond the necessary level of change. A reform based on the EU proposal would lead to an unreasonable reduction of sugar beet and sugar production. A farmer and industry joint paper estimates that the reform and the expected required adjustments resulting from the WTO panel would reduce EU sugar production by about 40 percent.

Timing
The reform should not begin before the current regime expires at the end of June 2006. The then to be implemented reform should be valid for at least six years to provide for a sufficient length of investment planning. Additionally, the reform should be carefully phased in.

Reduction of Beet and Sugar Prices
Farmers and the industry demand prices, which cover local production cost. They sympathize with ACP sugar producers who also reject the extent of proposed price reductions. The price reduction should not go beyond the level resulting from WTO commitments and should not be implemented before international commitments require the reform. The Commission is asked to classify sugar as a sensitive product and demand a qualified protection clause.

Quota Reduction
Farmers and the industry generally appreciate that a production control system should be maintained. They request that the Commission honors the desire of the least developed countries to incorporate the size of expected sugar shipments of these LDCs into the EU system of production quotas. It is feared that the EBA initiative will result in unlimited and uncontrollable imports of sugar from the benefiting countries.

Farmers tolerate a reduction of production quotas as long as these quotas reflect the domestic consumption level. The quota reduction should not exceed 1.3 MMT. Since the WTO panel is expected to require that non-quota sugar (also known as so-called C-quota sugar) can no longer be exported – about 3.0 MMT – the combined result would be that EU sugar production needs to be cut back by about 21 percent.

Farmers and industry oppose the proposal to increase the production quota for isoglucose by 300 KMT. Quota reductions should also apply to isoglucose.

Compensation Measures
Farmers and the industry request full compensation for income losses resulting from price and quota reductions. The full amount of these compensation payments should be made available to the farmers. Compensation payment level should be EU uniform.

Support for Restructuring Measures
The industry argues that the EU proposal to grant restructuring subsidies to the EU sugar industry of Euro 250 for each ton of sugar quota exceeding the minimum quota reduction requirement of 2.8 MMT is by far too low. There are discussions about creating a restructuring fund with these compensation payments to buy out sugar producers in less competitive production regions.

Comment
In addition to the German farmers and the sugar industry, agricultural market experts also warn the EU not to underestimate the amounts of sugar which might be pushed into the EU market through LDC countries. A leading economist of the federal agricultural research institute qualifies the EBA initiative as a ‘gigantic sucking pump’ for sugar to the EU market. It is feared that LDCs will buy sugar for their domestic needs from the world market and export most of the local production to the EU. The EU industry complains that they do not see any sign of concern on the part of the government about this expected carrousel business.